

instrument that requires such documents to be furnished to RUS in a shorter period of time may be disregarded.

(c) The borrower must furnish RUS with three copies of its plan for corrective action, if any, within 180 days of the as of audit date.

(d) The borrower must furnish RUS, within 120 days of the as of audit date, with a copy of each special report, summary of recommendations or similar communications, if any, received from the CPA as a result of the audit.

[56 FR 63360, Dec. 3, 1991, as amended at 59 FR 659, Jan. 6, 1994]

§§ 1773.22—1773.29 [Reserved]

Subpart D—RUS Reporting Requirements

§ 1773.30 General.

(a) The CPA must prepare the following:

(1) An auditor's report, examples of which are set forth in appendixes A, exhibit 1 (Electric), and B, exhibit 1 (Telephone) of this part 1773;

(2) A report on compliance, examples of which are set forth in appendixes A, exhibits 2 through 4 (Electric) and B, exhibits 2 through 4 (Telephone) of this part 1773;

(3) A report on internal controls, examples of which are set forth in appendixes A, exhibits 5 and 6 (Electric) and B, exhibits 5 and 6 (Telephone) of this part 1773; and

(4) A management letter, an example of which is set forth in appendix C of this part 1773.

(b) The CPA should deliver the auditor's report, report on compliance, report on internal controls, and management letter (with copies as required in § 1773.20) to the borrower as soon as possible after completion of the audit but not more than 90 days after the as of audit date.

§ 1773.31 Auditor's report.

The CPA must prepare a written report on comparative balance sheets, statements of revenue and patronage capital (or income and retained earnings, depending upon the structure of the borrower) and statements of cash flows. This report must be signed by

the CPA, cover all statements presented, and refer to the separate reports on internal controls and on compliance with laws and regulations issued in conjunction with the auditor's report.

[61 FR 108, Jan. 3, 1996]

§ 1773.32 Report on compliance.

(a) As required by GAGAS, the CPA must prepare a written report on the tests performed for compliance with applicable laws, regulations, contracts, and grants. This report must be signed by the CPA and must contain the status of known but uncorrected significant or material findings and recommendations from prior audits that affect the current audit objective.

(b) If, based upon assessments of materiality and audit risk, the CPA concludes that it is not necessary to perform tests of compliance with laws, regulations, and contracts, the CPA must issue a report as illustrated in appendix A, exhibit 2 (Electric) and appendix B, exhibit 2 (Telephone) of this part 1773.

(c) If the CPA determines that testing for compliance with laws, regulations, and contracts is necessary, and no material instances of noncompliance are found, the CPA must issue a report as illustrated in appendix A, exhibit 3 (Electric), and appendix B, exhibit 3 (Telephone) of this part 1773.

(d) If material instances of noncompliance are found, the CPA must issue a report as illustrated in appendix A, exhibit 4 (Electric), and appendix B, exhibit 4 (Telephone) of this part 1773.

(e) Other nonmaterial instances of noncompliance should not be disclosed in the report on compliance but should be reported in a separate communication to the board of directors, preferably in writing. All such communications must be documented in the workpapers.

(f) If the CPA has issued a separate letter detailing immaterial instances of noncompliance, the report on compliance must be modified to include a statement such as:

We noted certain immaterial instances of noncompliance that we have reported to the

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management of (borrower's name) in a separate letter dated March 2, 19X0.

[56 FR 63360, Dec. 3, 1991, as amended at 61 FR 108, Jan. 3, 1996]

§ 1773.33 Report on internal controls.

As required by GAGAS, the CPA must prepare a written report on the borrower's internal control structure and the assessment of control risk made as part of the financial statement audit. This report must be signed by the CPA and must include, as a minimum:

(a) The scope of the CPA's work to obtain an understanding of the borrower's internal control structure and in assessing the control risk;

(b) A description of the reportable conditions noted which include material weaknesses identified as a result of the CPA's work in understanding and assessing the control risk; and

(c) The status of known but uncorrected, significant or material findings and recommendations from prior audits that affect the current audit objective.

[61 FR 108, Jan. 3, 1996]

§ 1773.34 Management letter.

The CPA must prepare a management letter that includes, at a minimum, comments on:

(a) *Audit procedures.* State whether the audit has been performed in accordance with this part;

(b) *Special reports.* State whether any special reports, summaries of recommendations, or similar communications were furnished to the borrower's management during the course of the audit or during interim audit work, and provide a description of the information furnished;

(c) *Accounting and records.* Comment on the adequacy and effectiveness of the borrower's accounting procedures, discuss the general condition of the records, and outline any recommendations for improvement. Comment on the adequacy and fairness of the methods used in accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts, and where appropriate, include:

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(1) Whether subsidiary plant records agree with the controlling general ledger plant accounts;

(2) Whether construction clearing accounts are cleared promptly of costs of completed construction to the proper classified plant accounts and whether depreciation was accrued on such completed construction from the date the plant was placed in service;

(3) Whether retirements of plant are currently and systematically recorded and properly priced;

(4) Whether all costs associated with retirements of plant are properly accounted for in the accumulated provision for depreciation accounts and comment on any unusual charges or credits to such accounts; and

(5) Whether RUS approval was obtained for a sale requiring such approval, and whether receipts from sales of plant, material or scrap were not handled in conformance with RUS requirements.

(d) *Materials control.* Comment on the adequacy of the control over materials and supplies.

(e) *Compliance with RUS loan and security instrument provisions.* State whether the following provisions of RUS's loan and security instruments have been complied with:

(1) For electric borrowers, provisions relating to:

(i) The requirement for funds to be deposited in banks or other depositories designated in the loan documents or approved by RUS. For purposes of this part 1773, funds shall be defined as cash on deposit in demand and time accounts, and certificates of deposit;

(ii) The requirement for a borrower to obtain written approval of mortgagees to enter into any contract for the operation or maintenance of all or any substantial part of its property, or for the use by others of its property. For purposes of this part 1773, the following contracts shall be deemed as requiring RUS approval:

(A) Management contracts in which the borrower has contracted to have another borrower or other entity manage its affairs;

(B) Management contracts in which the borrower has contracted to manage